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RUEHCV/AMEMBASSY CARACAS 1061
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C O N F I D E N T I A L SECTION 01 OF 02 PANAMA 001518

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TAGS: [ENRG](#) [ETRD](#) [PREL](#) [PGOV](#) [PM](#)
SUBJECT: GOP DIVIDED ON REGIONAL ENERGY POLICY

REF: A. PANAMA 651

- [1](#)B. PANAMA 1213
- [1](#)C. PANAMA 1293
- [1](#)D. 2005PANAMA2342

Classified By: Amb William A. Eaton for Reasons 1.4 (b) & (d)

[1](#)1. (C) SUMMARY. On July 17, Minister of Trade and Industry Alejandro Ferrer told Ambassador and Econchief that he remains committed to the Occidental Petroleum refinery project (Ref A) but finds himself a lone voice. He said President Martin Torrijos, VP/FM Samuel Lewis Navarro, and other cabinet members were eager proponents of further cooperation with Venezuela on energy despite the GOV's track record of non-delivery and unproductive meetings with the GOP. At this time, Ferrer is trying to advance the gas pipeline through Colombia only (Refs B & C). The GOP stealthily approved legislation July 12 permitting a state-run company with the right to explore, transport, store, import, export and refine hydrocarbons. The GOP's initial interest appears to be in fuel storage facilities and may be paving the way for the transport sector to enter the fuel market via a deal with PDVSA. For President Torrijos and VP/FM Lewis, the criteria for supporting a particular initiative may not be economic viability, but placating a powerful and disgruntled transport sector and avoiding any increase in bus fares in the lead up to the Oct 22 Canal referendum. END SUMMARY.

PUBLIC OR PRIVATE SECTOR LED REGIONAL REFINERY ?

[1](#)2. (C) According to Ferrer, Venezuelan President Hugo Chavez spontaneously offered to build a refinery when Panama refused to sign up for PetroAmerica during Chavez's June 22-23 visit to Panama. To the delight of the GOP cabinet, Chavez claimed the refinery could process 150,000 barrels a day, be built in four months and would cost \$400 million. A follow up visit by Venezuelan technical personnel, however, produced no viable next steps and focused mainly on possible asphalt sales to Panama instead.

[1](#)3. (C) Ferrer told Ambassador and Econ Chief he remains committed to the Oxy refinery. He contrasted the substantive expertise of their consulting partners, their detailed studies, and Oxy's multi-million dollar investment to date with the confusing, disorganized rhetoric and activities of the Meso American and Venezuelan initiatives. (Comment: Although Oxy remains the most advanced and well-planned effort to date, the Oxy deal still needs financial partner(s) and an operator. If the Oxy deal does not get financed in the international capital markets (as the MEI/IDB deal has

not to date), the pressure on the GOP to pursue the Chavez option may be substantial. End Comment.)

14. (SBU) On July 6, Ferrer told oil industry reps of two additional agreements signed by the GOP and GOV during the Chavez visit, neither of which were published on the Ministry of Industry and Commerce websites. One, signed by Presidents Torrijos and Chavez, is a framework for mutual cooperation in the areas of social development and poverty reduction, trade and investment, energy, the environment and natural resources, science and technology, mining, fishing, agriculture, transportation, housing, tourism, health, education, culture and sports. The second, signed by Lewis and Venezuelan Foreign Minister Rodriguez, repeats the objectives of energy sector cooperation.

STEALTH LEGISLATION ENABLES STATE RUN OIL FIRM

15. (SBU) On July 6, Ferrer informed Panama's hydrocarbons industry the GOP was modifying existing legislation to allow the creation of a state owned hydrocarbons enterprise. (Note: This provision was an amendment to an unrelated bill on minting coins). The Assembly passed the law on July 12, one day before the industry could submit its response.

16. (SBU) The subsequent written industry response expressed dismay at the lack of consultation and the on-going decline in the relationship between this administration and the hydrocarbons industry (Ref D). Chief among industry concerns was the safety of their existing assets and operations should a state owned enterprise not be subject to the same regulations and tax environment. They pointed out the unanimous agreement among financial analysts that Panama enjoys the lowest fuel prices of any non-oil producing country in Central America and the historically poor price performance of state run enterprises in the region.

17. (C) Ferrer told Ambassador that this legislation had been under consideration for "some time", although he recommended against the timing of its submission because it would be linked to the recent Chavez visit. However, during Ferrer's trip to Chile, other cabinet members proceeded anyway. Minister Ferrer told Ambassador that he recommended against a wholly-owned and operated state run enterprise but believes the GOP could benefit from the influence and revenue from being a shareholder (as the GOP is in the electricity and telecommunication sectors).

IT'S ALL ABOUT THE TANKS

18. (C) On July 17, Exxon-Mobil and Chevron-Texaco country managers told Econoffs that the initial interest of the GOP is in identifying available tank and storage facilities. Panama has substantial fuel storage facilities to support its maritime sector. Fuel storage facilities in Panama are either privately owned or a GOP concession to a private company. Popular perception (fueled by some in the GOP) is that those who "control" fuel storage capacity in Panama intentionally prevent the entrance of new players to the fuel sector. (Comment: Panama's fuel sector has five major players, three international and five national, and almost 500 service stations for a country of 3.5 million. Industry experts do not believe Panama suffers from a lack of competition but rather there are too many players for this market. End Comment)

19. (C) The media reported in June and July that a partnership between Lucky Petrol and CODETRAP sought to import "cheaper" diesel from Venezuela as soon as they could identify appropriate storage facilities. MICI Deputy Director of Hydrocarbons confirmed to Econasst that Lucky Petrol, a subsidiary of PDVSA, has an import/distributor license. CODETRAP is a transport sector co-op. According to Ferrer, Chavez refuses to deal with any private sector company and

will only sell oil to a state run enterprise.

COMMENT

¶10. (C) Although the GOP's initial interest appears to be in fuel storage, the new legislation opens the door for substantial GOP participation in the petroleum sector, for this and future administrations. A disgruntled transport sector, an upcoming canal referendum and the political goals of President Torrijos and VP/FM Lewis are powerful factors in a time of historically high oil prices. The GOP's interest in fuel storage could foreshadow the market entrance of the transport sector seeking to import "cheap" Venezuelan fuel. This new player may not be as concerned about the safety, insurance, or environmental compliance of shipments from Venezuela. Ironically, the legislative right to enter the hydrocarbons market may in the end become a political obligation for the GOP and leave them with no out when they fail to deliver cheaper prices at the pump. At this time, Minister Ferrer professes to be the only GOP cabinet member who wishes to avoid GOV entanglement on energy.
EATON